

MODELING THE CROWDING EFFECT OF FOREIGN DIRECT INVESTMENT ON DOMESTIC INVESTMENT: EVIDENCE FROM 38 ASIAN COUNTRIES

NURUL AZWANIE BINTI BUDANG

Thesis submitted in fulfillment
of the requirements for the degree of
Master of Science
(Business Management)

Faculty of Business Management

February 2020

AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

Name of Student : Nurul Azwanie Binti Budang

Student I.D. No. : 2017347739

Programme : Master of Science (Business Management) – BM750

Faculty : Business Management

Thesis Title : Modeling The Crowding Effects of Foreign Direct
Investment on Domestic Investment: Evidence From
38 Asian Countries

Signature of Student :

Date : February 2020

ABSTRACT

This study assesses the extent to which Foreign Direct Investment (FDI) in Asia crowds in or crowds out Domestic Investment (DI) in different time period consist of before, during and after Asia and Global financial crises. The data collected are over the period of 1993-2016 and separated into six sub-periods; 1993-1995 (Before Asia Financial Crisis), 1996-1998 (During Asia Financial Crisis), 1999-2001 (After Asia Financial Crisis), 2004-2006 (Before Global Financial Crisis), 2007-2009 (During Global Financial Crisis) and 2010-2016 (After Global Financial Crisis). The model is run for 38 of Asian countries. In this study, researcher estimated the data using Panel Ordinary Least Square (POLS), Fixed Effects (FE), Random Effects (RE), Instrumental Variables (IV) and Fixed Effects with the Discroll and Kraay standard error estimator. Besides that, panel co-integration (Kao residual co-integration and Westerlund) tests and crowding effects formula have been applied to investigate long term relationship. The general empirical finding found that FDI has significantly negative and crowd out effect on DI during and after Asia financial crisis and before and during Global financial crisis. It is supported by the result of panel co-integration tests and long-term formula of crowding effect where the result revealed significantly negative and crowd out effect of FDI on DI in long term period for both of Asia and global financial crisis. For the case of insignificant results before Asia financial crisis and after Global financial crisis, the countries may focus on improvement of DI instead of attracting more FDI. However, FDI's activities keep on moving and aim to help in improvement of DI though it is not significant in host Asia. Thus, this study concluded that implementation of FDI during the crisis may contribute to the improvement of economic growth but discourage the local investor to invest in a country as it was crowded out local investment.

ACKNOWLEDGEMENT

First of all, I would like to express my heartfelt gratitude to Almighty Allah S.W.T for giving me the opportunity to embark on my MSc and for completing this long and challenging journey successfully. My gratitude and thanks also go to my supervisor Dr Taufik Abd Hakim. Thank you for the support and patience and ideas in assisting me with this project.

In addition, I would like to thank the Postgraduate Universiti Teknologi MARA, Kota Kinabalu Sabah for giving me the opportunity to conduct this study. I am really appreciated the authority of Universiti Teknologi MARA (UITM) for providing a good environment and facilities upon my Msc journey.

Finally, this thesis is dedicated to my dear parent and family who were always support me in every way and in every condition I was into. This piece of victory is dedicated to you. Alhamdulillah.

TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR’S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	xi
LIST OF FIGURES	xiii
LIST OF ABBREVIATIONS	xiv
CHAPTER ONE: INTRODUCTION	1
1.1 Background of Study	1
1.1.1 Investment, Domestic Investment and Foreign Direct Investment	1
1.1.2 Crowding In and Crowding Out effects	5
1.1.3 Flow Of Domestic Investment (DI) And Foreign Direct Investment (FDI): Case Of Asia Financial Crisis 1997	5
1.1.4 Flow of Domestic Investment (DI) and Foreign Direct Investment (FDI): Case of Global Crisis	8
1.1.5 Domestic Investment (DI), Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) Trends – 5 most affected countries	10
1.2 Problem Statement	16
1.3 Objectives of Study	18
1.4 Research Question	19
1.5 Significance of Study	19
1.5.1 Body of Knowledge	19
1.5.1.1 <i>Comparison among Studies</i>	20
1.5.2 Future Study	21
1.5.3 Government	21
1.5.4 Investor	22